

**REGIONAL HEALTH SERVICES
OF HOWARD COUNTY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2020 AND 2019

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS
YEAR ENDED JUNE 30, 2020**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Willis	Chairperson	January 2, 2021
John Wacha, III	Vice Chairperson	January 2, 2023
Helen Jean Kapler	Secretary	January 2, 2021
Allen Moudry	Treasurer	January 2, 2023
Don Recker	Member	January 2, 2023
Jeremy Johnston	Member	January 2, 2023
Michael Mahr	Member	January 2, 2023
Robin Schluter	Chief Executive Officer	
Gregory Burkel	Chief Financial Officer	

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Regional Health Services of Howard County
Cresco, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Health Services of Howard County (Hospital) and its discretely presented component unit, Regional Health Services Foundation (Foundation), which comprise the statements of net position and statements of financial position, respectively, as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Regional Health Services of Howard County and its discretely presented component unit as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12, the Budgetary Comparison, Schedule of the Hospital's Proportionate Share of the Net Pension Liability, Schedule of Hospital Contributions, and related notes on pages 45 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Regional Health Services of Howard County as a whole. The supplementary information on pages 50 through 57 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The table of the board of trustees and hospital officials and schedules of aged analysis of accounts receivable from patients and allowance for doubtful accounts have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2020 our consideration of Regional Health Services of Howard County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Health Services of Howard County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
November 9, 2020

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

This section of Regional Health Services of Howard County (Hospital) annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2020. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

USING THIS ANNUAL REPORT

The June 30, 2020 and 2019 financial reports include the following audited financial statements:

- Statements of Net Position - Hospital
- Statements of Financial Position - Foundation
- Statements of Revenues, Expenses, and Changes in Net Position - Hospital
- Statements of Activities and Changes in Net Assets - Foundation
- Statements of Cash Flows - Hospital
- Statements of Cash Flows - Foundation
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased by \$5,513,283, or 17.08%, in 2020 and decreased by \$323,133, or 0.99% in 2019.
- Net position increased by \$1,019,629, or 8.45%, in 2020, and \$1,075,668, or 9.79%, in 2019.
- The Hospital reported an operating loss of \$33,885 in 2020, and operating income of \$53,860 in 2019 and \$280,945 in 2018. This represents a decrease in operating income in 2020 of \$87,745 and a decrease of \$227,085 in 2019.

THE STATEMENTS OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The statements of net position is a statement of financial position. It includes all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the amounts of investments in resources (assets) and the obligations to creditors (liabilities). Revenue and expense are reflected for the current and previous year on the statements of revenues, expenses, and changes in net position. This statement shows the results of the Hospital's operations. The last financial statement is the statements of cash flow. The cash flow essentially reflects the movement of money in and out of the Hospital that determines their solvency. It is divided into cash flows (in or out) from operating, noncapital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

FINANCIAL ANALYSIS OF THE HOSPITAL

The information from the statements of net position, statements of revenues, expenses and changes in net position, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net position of the Hospital and the changes in them. Increases or decreases in net position are one indicator of whether or not the Hospital's financial health is improving. Other nonfinancial factors can also have an effect on their financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payors, as well as changes in the economic environment of Howard County and the surrounding areas.

Table 1: Statements of Net Position

	2020	2019	2018
ASSETS			
Current Assets	\$ 23,791,842	\$ 16,473,310	\$ 15,967,937
Capital Assets, Net	13,548,810	14,153,126	14,881,808
Noncurrent Cash and Investments	444,995	1,645,928	1,745,752
Total Assets	<u>37,785,647</u>	<u>32,272,364</u>	<u>32,595,497</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>2,155,420</u>	<u>2,002,202</u>	<u>1,882,989</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 39,941,067</u></u>	<u><u>\$ 34,274,566</u></u>	<u><u>\$ 34,478,486</u></u>
LIABILITIES			
Total Current Liabilities	\$ 8,447,692	\$ 3,538,889	\$ 4,227,728
Long-Term Debt (Less Current Maturities)	10,392,039	11,116,432	11,835,987
Total Liabilities	<u>18,839,731</u>	<u>14,655,321</u>	<u>16,063,715</u>
NET PENSION LIABILITY	<u>6,153,586</u>	<u>6,178,381</u>	<u>6,100,574</u>
DEFERRED INFLOWS OF RESOURCES	1,862,432	1,375,175	1,324,176
NET POSITION			
Invested in Capital Assets Net of Related Debt	3,747,379	2,317,139	2,405,532
Restricted	139,917	1,652,090	1,724,186
Unrestricted	9,198,022	8,096,460	6,860,303
Total Net Position	<u>13,085,318</u>	<u>12,065,689</u>	<u>10,990,021</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u><u>\$ 39,941,067</u></u>	<u><u>\$ 34,274,566</u></u>	<u><u>\$ 34,478,486</u></u>

Asset categories changing significantly during 2020 and 2019 include Cash and Cash Equivalents, Net Capital Assets, and Noncurrent Cash and Investments. Cash and Cash Equivalents increased by \$7,574,983, or 73.43% in 2020. Net Capital Assets decreased by \$604,316, or 4.27% in 2020. Noncurrent Cash and Investments decreased by \$1,200,933, or 72.96% in 2020.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

FINANCIAL ANALYSIS OF THE HOSPITAL (CONTINUED)

The current ratio (current assets divided by current liabilities including deferred tax revenue) for 2020 was 2.59, for 2019 was 3.88, and for 2018 was 3.25. The current ratio is a measure of liquidity, providing an indication of the Hospital's ability to pay current liabilities: a high ratio number is preferred.

Table 2 summarizes information from the statements of revenues, expenses, and changes in net position.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
Operating Revenue:			
Net Patient Service Revenue	\$ 25,217,837	\$ 23,696,109	\$ 22,134,059
Other Operating Revenue	2,248,181	2,024,192	1,656,861
Total Operating Revenue	<u>27,466,018</u>	<u>25,720,301</u>	<u>23,790,920</u>
Operating Expenses:			
Salaries and Wages	9,869,454	8,888,683	8,088,212
Employee Benefits	3,526,949	3,034,264	2,725,022
Supplies and Miscellaneous	11,820,529	11,499,057	10,524,929
Depreciation	1,897,012	1,756,074	1,672,208
Interest	385,959	488,363	499,604
Total Operating Expenses	<u>27,499,903</u>	<u>25,666,441</u>	<u>23,509,975</u>
Operating Income (Loss)	(33,885)	53,860	280,945
Nonoperating Revenues (Expenses) :			
Tax Revenue	715,690	701,230	664,120
Investment Income	147,687	237,646	119,040
Noncapital Grants and Contributions	135,427	93,168	56,894
Gain (Loss) on Sale of Property and Equipment	11,605	(10,750)	(3,844)
Total Nonoperating Revenues (Expenses)	<u>1,010,409</u>	<u>1,021,294</u>	<u>836,210</u>
Excess of Revenues over Expenses	976,524	1,075,154	1,117,155
Capital Grants and Contributions	<u>43,105</u>	<u>514</u>	<u>472,829</u>
Increase in Net Position	1,019,629	1,075,668	1,589,984
Net Position – Beginning of Year	<u>12,065,689</u>	<u>10,990,021</u>	<u>9,400,037</u>
Net Position – End of Year	<u><u>\$ 13,085,318</u></u>	<u><u>\$ 12,065,689</u></u>	<u><u>\$ 10,990,021</u></u>

Net patient service revenue made up 92% in 2020, 92% in 2019 and 93% in 2018 of the Hospital's total operating revenue. To arrive at net patient service revenue, gross revenue is reduced by contractual adjustments due to agreements with third-party payors and a provision for uncollectible accounts. Table 3 below shows the contractual adjustments and provision for uncollectible accounts that was recognized:

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

FINANCIAL ANALYSIS OF THE HOSPITAL (CONTINUED)

Table 3: Net Patient Service Revenue, Contractual Adjustments and Provision for Uncollectible Accounts

	2020	2019	2018
Total Patient Service Revenues	\$ 46,324,769	\$ 44,489,810	\$ 38,629,952
Contractual Adjustments and Provision for Uncollectible Accounts	21,106,932	20,793,701	16,495,893
Net Patient Service Revenue	<u>\$ 25,217,837</u>	<u>\$ 23,696,109</u>	<u>\$ 22,134,059</u>
Contractual Adjustments and Provision for Uncollectible Accounts as a Percent of Revenues	45.56%	46.74%	42.70%

Total operating expenses increased \$1,833,462, or 7.14% in 2020 and increased \$2,156,466, or 9.17% in 2019. The operating expenses are broken out by department on the schedules of operating expenses.

Operating Loss was \$33,885, or -0.12% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2020 compared to Operating Income to \$53,860, or 0.21%, in 2019.

Other operating revenue increased by \$223,989, or 11.07% in 2020 and increased by \$367,331, or 22.17% in 2019. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2020	2019	2018
Meals Sold	\$ 102,561	\$ 106,608	\$ 91,680
Dietary Consultations	27,800	20,352	32,559
Medical Records Transcripts	7,394	5,960	2,011
Occupational Health	28,382	29,776	26,310
Vending Machines	792	758	945
Purchase Discounts and Rebates	49,083	24,748	23,829
Public Health Support	144,596	144,596	144,596
Clinic Rental Income	34,964	37,589	49,082
340B Pharmacy Revenue	1,711,382	1,550,601	1,179,293
Miscellaneous	141,227	103,204	106,556
Total Other Revenues	<u>\$ 2,248,181</u>	<u>\$ 2,024,192</u>	<u>\$ 1,656,861</u>

HOSPITAL STATISTICAL DATA

Table 5 shows the Hospital's statistical data. Acute patient days decreased by 17 days or 2.7% in 2020, and increased by 76 days or 13.8% in 2019. Swing Bed Days increased by 32 days or 5.66% in 2020 and decreased by 16 or 2.75% in 2019.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

HOSPITAL STATISTICAL DATA (CONTINUED)

Table 5: Statistical Data

	2020	2019	2018
Patient Days			
Acute	611	628	552
Swing Bed	597	565	581
Newborn	103	121	102
Total	<u>1,311</u>	<u>1,314</u>	<u>1,235</u>
Admissions			
Acute	226	209	190
Swing Bed	57	56	61
Newborn	44	56	57
Total	<u>327</u>	<u>321</u>	<u>308</u>
Discharges			
Acute	226	207	191
Swing Bed	52	59	61
Newborn	44	55	57
Total	<u>322</u>	<u>321</u>	<u>309</u>
Average Length of Stay, Acute	<u>2.70</u>	<u>3.03</u>	<u>2.89</u>
Beds			
Acute and Swing	19	19	19
Occupancy Percentage			
Acute, Based on 19 beds	8.8%	9.1%	8.0%
Swing, Based on 19 beds	8.6%	8.1%	8.4%

Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2020, the Hospital had \$13,548,810 invested in capital assets, net of accumulated depreciation. In 2020, the Hospital expended \$1,297,146 to purchase property and equipment. In 2019 and 2018, the Hospital purchased property and equipment costing \$1,038,142 and \$668,561, respectively.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

HOSPITAL STATISTICAL DATA (CONTINUED)

Long-Term Debt

Table 6 reflects a summary of the Hospital's long-term debt outstanding.

Table 6: Long-Term Debt

	2020	2019	2018
2012 Series Bonds	\$ -	\$ 9,735,000	\$ 9,735,000
2013 Series Bonds	-	1,995,000	2,625,000
2019A Series Bonds	8,710,000	-	-
2019B Series Bonds	1,060,000	-	-
PPP Loan	2,359,700	-	-
Capital Lease Obligations	31,431	105,987	179,315
Total Long-Term Debt	<u>\$ 12,161,131</u>	<u>\$ 11,835,987</u>	<u>\$ 12,539,315</u>

During the 2013 fiscal year, series 2012 and 2013 Hospital Revenue Bonds were issued December 28, 2012 and January 15, 2013 in the amounts of \$9,735,000 and \$5,030,000, respectively. Principal payments began in fiscal year 2015 for the 2013 bonds. Both series were refinanced in fiscal year 2020.

In fiscal year 2020, series 2019A and 2019B Hospital Revenue Refunding Bonds were issued through UMB Bank on November 21, 2019, in the amounts of \$8,710,000 and \$1,390,000, respectively. These bonds were used to pay off the existing debt of the 2012 and 2013 series. Principal payments begin in fiscal year 2021 for the 2019A bonds and 2022 for the 2019B bonds.

The Health Center also obtained financing from the Small Business Administration (SBA) Paycheck Protection Program (PPP) related to relief from the COVID-19 pandemic in the amount of \$2,359,700 with a two-year term at a rate of 1.00% through CUSB Bank. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain criteria like maintaining full-time equivalent employees. The amount of the loan forgiveness has yet to be determined. The liability will remain until the lender formally issues the forgiveness decision on the amounts, if any, that will be forgiven.

ECONOMIC FACTORS

The Hospital continues to improve its operational and financial performance. During the fiscal year 2020, we are highlighting the following items:

- 1) The Hospital continues to update and expand services. The imaging department upgraded to a 3D mammography unit. To provide orthopedic services onsite, Dr. Richard Rattay, from Mason City Clinic began a specialty clinic in February 2020 and is performing orthopedic procedures onsite.
- 2) Planning for the construction of a rural health clinic in the city of Elma and the services provided at the clinic by the Hospital continued. The city broke ground on construction in early spring with an opening date in the fall of FY21.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

- 3) Initial planning for a collaboration between the Hospital and Cancer Treatment Centers of America also began later in the fiscal year. This collaboration will allow for chemotherapy and infusion services to be provided at Regional Health Services starting in November 2020.
- 4) The fiscal year saw the departure of family practice physician, David Heine in February. His patient complement was addressed by the hiring several midlevel providers. Amanda Powers, Chad Rasmussen and Malory Larson are midlevel providers that were hired for full-time positions in FY20.
- 5) For the first time, the FY 2019 filed Medicare cost report included a home office cost report from MercyOne, with the plan to include these costs in future cost report filings.
- 6) Hospital's 340B program was audited by HRSA and did not identify any findings regarding eligibility, diversion, or duplicate discounts.
- 7) In December 2019, the Hospital refinanced the current bond issues. The refinancing resulted in an over \$1 million decrease in bond principal balances. New bonds were issued for \$10,100,000 with principal payments being made monthly as opposed to yearly.
- 8) The Hospital was significantly impacted by the COVID 19 – Pandemic. Upon the March 13th, 2020 pandemic declaration, the Hospital was required by state order to cancel all elective surgical procedures which ended May. Additionally, the Hospital chose to shut down several outpatient services: cardiac rehabilitation, pulmonary rehabilitation, outpatient nonemergent imaging and Senior Life Solutions. The primary care clinics saw significant drops in visits, as patients delayed their general routine care visits.

The Hospital initiated their incident command with the pandemic declaration. This group worked through changing protocols and implemented cross-training of employees to different departments/roles to assure continuity of care during the pandemic should a department experience staffing shortages or experience surge volumes for patient care.

Hospital staff worked quickly to set up a separate respiratory clinic location for patients with COVID-19 related symptoms during business hours and maintain a safe and clean environment for patients visiting the normal clinic location for routine and non-COVID-19 related care.

The Hospital received provider relief funds under the CARES Act and other grants to help offset the financial implications of reduced patient volumes and additional costs to manage under the pandemic. Department of Health & Human Services CARES grants totaled over \$4.4 Million and other COVID pandemic response grants of \$89,000. RHSHC received over \$2.3 Million in funds from the SBA loan for the Paycheck Protection Program and plan to apply for the forgiveness of this loan.

- 9) After an in-depth analysis of potential partners, the Board of Trustees decided to change the current management services affiliation from MercyOne to Avera Health, Sioux Falls, South Dakota. Due to developments caused by the COVID-19 pandemic; however, the actual transition has been delayed until spring 2021.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

CONTACTING REGIONAL HEALTH SERVICES OF HOWARD COUNTY

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate our accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Chief Financial Officer at Regional Health Services of Howard County, 235 8th Avenue West, Cresco, IA 52136.

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF NET POSITION – HOSPITAL
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 17,890,927	\$ 10,315,944
Investments	-	138
Current Portion of Noncurrent Cash and Investments	81,161	382,931
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$1,031,000 in 2020 and \$853,000 in 2019	3,520,592	3,778,569
Other Receivables	398,974	332,543
Estimated Third-Party Payor Settlements Receivable	179,649	-
Inventory	857,587	679,204
Prepaid Expenses	134,714	281,909
Succeeding Year Property Tax Receivable	728,238	702,072
Total Current Assets	<u>23,791,842</u>	<u>16,473,310</u>
 NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvement	444,995	505,212
Restricted Under Debt Agreements	-	1,140,716
Total Noncurrent Cash and Investments	<u>444,995</u>	<u>1,645,928</u>
 CAPITAL ASSETS, NET	<u>13,548,810</u>	<u>14,153,126</u>
 Total Assets	37,785,647	32,272,364
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	<u>2,155,420</u>	<u>2,002,202</u>
 Total Assets and Deferred Outflows of Resources	<u><u>\$ 39,941,067</u></u>	<u><u>\$ 34,274,566</u></u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF NET POSITION – HOSPITAL (CONTINUED)
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,769,092	\$ 719,555
Accounts Payable:		
Trade	720,113	723,396
Due to Affiliated Organization	287,545	210,667
Accrued Expenses	1,273,595	1,106,290
Estimated Third-Party Payor Settlements Payable	-	778,981
Unearned Grant Revenue	4,397,347	-
Total Current Liabilities	<u>8,447,692</u>	<u>3,538,889</u>
NET PENSION LIABILITY	6,153,586	6,178,381
LONG-TERM DEBT, NET OF CURRENT MATURITIES	<u>10,392,039</u>	<u>11,116,432</u>
Total Liabilities	24,993,317	20,833,702
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	728,238	702,072
Pension Related Deferred Inflows	1,134,194	673,103
Total Deferred Inflows of Resources	<u>1,862,432</u>	<u>1,375,175</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	3,747,379	2,317,139
Restricted - Under Debt Agreements	81,161	1,523,647
Restricted - For Purpose by Donor/Grantor	58,756	128,443
Unrestricted	9,198,022	8,096,460
Total Net Position	<u>13,085,318</u>	<u>12,065,689</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 39,941,067</u>	 <u>\$ 34,274,566</u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF FINANCIAL POSITION – FOUNDATION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 723,074	\$ 640,925
Current Portion of Pledges Receivable	15,000	23,955
Beneficial Interest in Community Foundation	<u>38,878</u>	<u>38,419</u>
Total Current Assets	776,952	703,299
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	<u>14,048</u>	<u>10,019</u>
Total Assets	<u><u>\$ 791,000</u></u>	<u><u>\$ 713,318</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 19,304	\$ 1,768
NET ASSETS		
Without Donor Restrictions	107,990	111,481
With Donor Restrictions	<u>663,706</u>	<u>600,069</u>
Total Net Assets	<u>771,696</u>	<u>711,550</u>
Total Liabilities and Net Assets	<u><u>\$ 791,000</u></u>	<u><u>\$ 713,318</u></u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – HOSPITAL
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Net Patient Service Revenue (Net of Contractual Allowances and Discounts and Provision for Uncollectible Accounts)	\$ 25,217,837	\$ 23,696,109
Other Revenue	<u>2,248,181</u>	<u>2,024,192</u>
Total Operating Revenues	<u>27,466,018</u>	<u>25,720,301</u>
OPERATING EXPENSES		
Salaries and Wages	9,869,454	8,888,683
Employee Benefits	3,526,949	3,034,264
Supplies and Miscellaneous	11,820,529	11,499,057
Depreciation	1,897,012	1,756,074
Interest	<u>385,959</u>	<u>488,363</u>
Total Operating Expenses	<u>27,499,903</u>	<u>25,666,441</u>
OPERATING INCOME (LOSS)	(33,885)	53,860
NONOPERATING REVENUES AND EXPENSES		
Tax Revenue	715,690	701,230
Investment Income	147,687	237,646
Noncapital Grants and Contributions	135,427	93,168
Gain (Loss) on Sale of Capital Assets	<u>11,605</u>	<u>(10,750)</u>
Net Nonoperating Revenues and Expenses	<u>1,010,409</u>	<u>1,021,294</u>
EXCESS OF REVENUES OVER EXPENSES	976,524	1,075,154
CAPITAL CONTRIBUTIONS AND GRANTS	<u>43,105</u>	<u>514</u>
INCREASE IN NET POSITION	1,019,629	1,075,668
Net Position – Beginning of Year	<u>12,065,689</u>	<u>10,990,021</u>
NET POSITION – END OF YEAR	<u><u>\$ 13,085,318</u></u>	<u><u>\$ 12,065,689</u></u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS – FOUNDATION
YEARS ENDED JUNE 30, 2020 AND 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total
OPERATING REVENUES			
Contributions	\$ 10,858	\$ 67,776	\$ 78,634
Interest Income	1,002	-	1,002
Released From Restrictions	4,139	(4,139)	-
Total Operating Revenues	<u>15,999</u>	<u>63,637</u>	<u>79,636</u>
EXPENSES			
Contributions to Regional Health Services of Howard County	3,762	-	3,762
Supplies and Miscellaneous	15,728	-	15,728
Total Expenses	<u>19,490</u>	<u>-</u>	<u>19,490</u>
INCREASE (DECREASE) IN NET ASSETS	(3,491)	63,637	60,146
Net Assets – Beginning of Year	<u>111,481</u>	<u>600,069</u>	<u>711,550</u>
NET ASSETS – END OF YEAR	<u>\$ 107,990</u>	<u>\$ 663,706</u>	<u>\$ 771,696</u>
	Without Donor Restrictions	With Donor Restrictions	2019 Total
OPERATING REVENUES			
Contributions	\$ 22,591	\$ 69,503	\$ 92,094
Interest Income	2,400	-	2,400
Total Operating Revenues	<u>24,991</u>	<u>69,503</u>	<u>94,494</u>
EXPENSES			
Supplies and Miscellaneous	399	-	399
Total Expenses	<u>399</u>	<u>-</u>	<u>399</u>
INCREASE IN NET ASSETS	24,592	69,503	94,095
Net Assets – Beginning of Year	<u>86,889</u>	<u>530,566</u>	<u>617,455</u>
NET ASSETS – END OF YEAR	<u>\$ 111,481</u>	<u>\$ 600,069</u>	<u>\$ 711,550</u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS – HOSPITAL
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 24,517,184	\$ 22,669,055
Cash Paid to Employees	(12,954,529)	(11,706,881)
Cash Paid to Suppliers	(11,778,122)	(11,900,774)
Other Receipts and Payments, Net	2,181,750	1,958,093
Net Cash Provided by Operating Activities	<u>1,966,283</u>	<u>1,019,493</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Contributions and Grants	4,532,774	93,168
Tax Appropriations	715,690	701,230
Net Cash Provided by Noncapital Financing Activities	<u>5,248,464</u>	<u>794,398</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment	(1,297,146)	(1,038,142)
Proceeds from Sale of Property and Equipment	16,055	-
Capital Contributions and Grants	43,105	514
Proceeds from Issuance of Long-Term Debt	12,459,700	-
Payments on Long-Term Debt	(12,134,556)	(703,328)
Interest Payments on Long-Term Debt	(377,450)	(488,391)
Net Cash Used by Capital and Related Financing Activities	<u>(1,290,292)</u>	<u>(2,229,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	147,687	237,646
Net Change in Noncurrent Cash and Investments	1,502,841	141,794
Net Cash Provided by Investing Activities	<u>1,650,528</u>	<u>379,440</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,574,983	(36,016)
Cash and Cash Equivalents – Beginning of Year	<u>10,315,944</u>	<u>10,351,960</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 17,890,927</u></u>	<u><u>\$ 10,315,944</u></u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
STATEMENTS OF CASH FLOWS – HOSPITAL (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (33,885)	\$ 53,860
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash Provided by Operating Activities:		
Provision for Uncollectible Accounts	942,042	1,254,913
Interest Expense Considered Capital and Related		
Financing Activity	385,959	488,363
Depreciation	1,897,012	1,756,074
(Increase) Decrease in:		
Patient Receivables	(684,065)	(1,772,198)
Other Receivables	(66,431)	(66,099)
Supplies	(178,383)	18,629
Prepaid Expenses	147,195	2,531
Deferred Outflows of Resources	(153,218)	(119,213)
Increase (Decrease) in:		
Accounts Payable	73,595	(422,877)
Accrued Expenses	158,796	227,608
Third-Party Payor Settlements Payable	(958,630)	(509,769)
Deferred Inflows of Resources	461,091	29,864
Net Pension Liability	(24,795)	77,807
Net Cash Provided by Operating Activities	<u>\$ 1,966,283</u>	<u>\$ 1,019,493</u>

See accompanying Notes to Financial Statements.

**REGIONAL HEALTH SERVICES FOUNDATION
STATEMENTS OF CASH FLOWS – FOUNDATION
YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 60,146	\$ 94,095
Decrease in Pledge Receivable	4,926	33,813
Increase (Decrease) in Accounts Payable	17,536	(1)
Net Cash Provided by Operating Activities	<u>82,608</u>	<u>127,907</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in Beneficial Interest in Community Foundation	<u>(459)</u>	<u>(5,126)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	82,149	122,781
Cash and Cash Equivalents – Beginning of Year	<u>640,925</u>	<u>518,144</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u><u>\$ 723,074</u></u>	<u><u>\$ 640,925</u></u>

See accompanying Notes to Financial Statements.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Regional Health Services of Howard County (Hospital) consists of a 19-bed acute care hospital, organized under Chapter 347A, Code of Iowa. The hospital is located in Cresco, Iowa and services are provided primarily to residents of Howard and surrounding counties in northeastern Iowa. The Hospital provides health care services in accordance with a Management Agreement which is discussed in Note 13.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital.

Regional Health Services Foundation (the Foundation) is a nonprofit entity legally separate from the Hospital. The Hospital does not appoint a voting majority of the Foundation's board of directors or in any way impose its will over the Foundation. However, the Foundation is included as a discrete presentation due to the nature and significance of its relationship with the Hospital.

Tax Exempt Status

The Hospital is exempt from income taxes as a political subdivision.

The Foundation is an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Basis of Presentation – Hospital

The statements of net position display the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories/components:

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Hospital (Continued)

Net investment in capital assets - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net position result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position - consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted resources first.

Basis of Presentation-Foundation

The Foundation reports information regarding its financial position and operations according to two classes of net assets depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Those resources over which the Foundation has discretionary control.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported net assets with restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by FASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivable

Patient receivables are reduced by an allowance for doubtful accounts. Patients are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. In evaluating the collectability of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients and who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time.

At June 30, 2020 and 2019, the allowance for doubtful accounts for self-pay patients was approximately \$1,031,000 and \$853,000, respectively. The Hospital's allowance for doubtful accounts for self-pay patients increased with 63% of self-pay accounts receivable at June 30, 2019, compared to 59% of self-pay accounts receivable at June 30, 2020. The Hospital's self-pay write-offs decreased approximately \$308,000 from approximately \$1,332,000 for fiscal year 2019 to approximately \$1,024,000 for fiscal year 2020. The increase in the allowance for doubtful accounts was the result of an increase in self-pay accounts from 2019 to 2020. The Hospital has not materially changed its charity care or uninsured discount policies during fiscal years 2019 or 2020. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes which represent unpaid taxes for the current and prior years are recorded in other receivables. The succeeding year property tax receivable represents taxes certified by the board of trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the board of trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted under debt agreements and assets which have been internally designated by the Hospital's board of trustees for capital acquisitions. Board-designated assets remain under the control of the board of trustees which may, at its discretion, later use for other purposes.

Inventory

Inventories are valued at historical cost using the first-in, first-out method.

Pledges Receivable

The Foundation has net pledges receivable of \$29,048 and \$33,974 as of June 30, 2020 and 2019, respectively. Pledges receivable represent commitments to make gifts received from local organizations and residents of Howard County and the surrounding area. The pledges are not legally enforceable; therefore, the Foundation has recorded an allowance for uncollectible pledges and discount in the amount of \$9,632 and \$11,181 at June 30, 2020 and 2019, respectively.

Capital Assets

Capital asset acquisitions equal to or greater than \$5,000 are capitalized and are recorded at cost. Capital assets donated for Hospital operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Depreciation expense for the years ended June 30, 2020 and 2019 was \$1,897,012 and \$1,756,074, respectively. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land Improvements	5 to 20 Years
Buildings and Improvements	5 to 40 Years
Equipment	3 to 20 Years

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grant proceeds received where all eligibility requirements have not yet been met are presented as unearned grant revenue in the statements of net position.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants, and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Charity Care

To fulfill its mission of community service, the Hospital provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and service revenue, depending on the timing of the charity determination.

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected leave payouts is recorded as accrued expenses in the statements of net position based on pay rates that are in effect at June 30, 2020 and 2019.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

County Tax Revenues

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

During the year ended June 30, 2020 and 2019, Howard County provided tax abatements to one or more individuals or entities in urban renewal areas in return for economic development and/or other benefits. These tax abatements reduced the Hospital's tax revenues by \$92,146 and \$88,757.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statements of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unamortized items not yet charged to pension expense.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future year(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

Functional Expense Allocation – Foundation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Directly identifiable expenses are charged to programs and support services. Expenses relating to more than one function are allocated based upon management's judgement. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide overall support to the Foundation.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain items in the 2019 financial statements were reclassified for comparison purposes with the 2020 financial statements. The reclassifications did not result in a change in net position as previously reported.

NOTE 2 DESIGNATED NET POSITION

Of the \$9,198,022 and \$8,096,460 of unrestricted net position at June 30, 2020 and 2019, respectively, the board of trustees has designated the amounts below for capital expenditures. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	<u>2020</u>	<u>2019</u>
For Capital Improvements	<u>\$ 444,995</u>	<u>\$ 505,212</u>

NOTE 3 CHARITY CARE AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$64,031 and \$58,639 for the years ended June 30, 2020 and 2019, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2020 and 2019 were approximately \$34,000 and \$31,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at allowable cost plus 1%, less sequestration 2%, with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2018.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2017.

Effective April 1, 2016, Iowa Medicaid transitioned to three managed care organizations (MCO): United Healthcare, Amerigroup, and Amerihealth Caritas. During fiscal year 2018 Amerihealth Caritas dropped out of the plan and is no longer participating. The Hospital is a participating provider with both organizations during fiscal years 2020 and 2019. Payment rates and methodology with each MCO are to mirror those that were previously paid by Iowa Medicaid. Effective July 1, 2019, United Healthcare is no longer a participating managed care organization, while Iowa Total Care has now entered the plan. The Hospital is contracted with Iowa Total Care.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge using APR-DRGs. Outpatient services are reimbursed on a prospective basis based on groups of services called EAPGs.

Other

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

Uninsured Patients

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients and residents in the period the services are provided.

A summary of patient service revenue, contractual adjustments, and provision for uncollectible accounts is as follows for the years ended June 30:

	2020	2019
Total Patient Service Revenue	\$ 46,324,769	\$ 44,489,810
Contractual Adjustments:		
Medicare	(8,959,520)	(8,242,303)
Medicaid	(4,039,960)	(3,583,119)
Provision for Uncollectible Accounts	(942,042)	(1,254,913)
Other	(7,165,410)	(7,713,366)
Total Contractual Adjustments	<u>(21,106,932)</u>	<u>(20,793,701)</u>
Net Patient Service Revenue	<u>\$ 25,217,837</u>	<u>\$ 23,696,109</u>

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. For the years ended June 30, 2020 and 2019, the Hospital recognized additional net patient revenue of approximately \$140,000 and \$255,000, respectively, due to changes in prior year estimates resulting from settled reports.

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30 is as follows:

	2020	2019
Receivables from Patients and Their Insurance Carriers	\$ 3,252,987	\$ 3,104,517
Receivables from Medicare	1,008,857	1,306,721
Receivables from Medicaid	289,599	220,471
Total Patient Receivables	<u>4,551,443</u>	<u>4,631,709</u>
Less: Allowance for Doubtful Accounts	<u>(1,030,851)</u>	<u>(853,140)</u>
Patient Receivables, Net	<u>\$ 3,520,592</u>	<u>\$ 3,778,569</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 PLEDGES RECEIVABLE

The Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5%.

The following is a summary of unconditional promises to give as of June 30:

	2020	2019
Less than One Year	\$ 23,680	\$ 23,955
One to Five Years	15,000	21,200
Total	<u>38,680</u>	<u>45,155</u>
Less: Discount	(952)	(2,150)
Less: Allowance for Uncollectible Promises to Give	<u>(8,680)</u>	<u>(9,031)</u>
Unconditional Promises to Give, Net	<u>\$ 29,048</u>	<u>\$ 33,974</u>

NOTE 7 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

The Foundation is a benefactor of an annuity life contribution maintained by an independent trustee, Community Foundation of Greater Des Moines (Community Foundation). The Community Foundation's assets are to be held in perpetuity. The foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The gifts have been recognized in the financial statements as beneficial interest in net assets of the Community Foundation. It should be noted, however, that the Foundation has granted the Community Foundation variance power, which allows the Community Foundation to modify the Foundation's stipulations under certain circumstances as the Community Foundation monitors the changing needs of the community.

NOTE 8 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the board of trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits and investments of the Hospital are made up of cash and cash equivalents and are included in the Hospital's statements of net position as follows:

	2020	2019
Cash and Cash Equivalents	\$ 17,890,927	\$ 10,315,944
Investments	-	138
Current Portion of Noncurrent Cash and Investments	81,161	382,931
Noncurrent Cash and Investments:		
Restricted Under Debt Agreements	-	1,140,716
Internally Designated for Capital Improvements	444,995	505,212
Total	<u>\$ 18,417,083</u>	<u>\$ 12,344,941</u>

Note that the current portion of noncurrent cash and investments is made up of funds restricted under debt agreements.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

The Hospital uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Hospital had no investments meeting the disclosure requirements of GASB Statement No. 72.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 CAPITAL ASSETS

Summaries of capital assets are as follows for the years ended June 30:

	Balance June 30, 2019	Additions	Transfers	(Retirements)	Balance June 30, 2020
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 535,791	\$ -	\$ -	\$ -	\$ 535,791
Building	15,509,468	-	-	-	15,509,468
Fixed Equipment	6,226,199	41,968	211,788	-	6,479,955
Major Movable Equipment	9,808,333	23,493	1,001,435	(276,632)	10,556,629
Construction in Process	93,971	1,231,685	(1,213,223)	-	112,433
Total	32,173,762	1,297,146	-	(276,632)	33,194,276
ACCUMULATED DEPRECIATION					
Land Improvements	240,623	24,967	-	-	265,590
Building	6,429,911	789,445	-	-	7,219,356
Fixed Equipment	3,446,389	316,416	-	-	3,762,805
Major Movable Equipment	7,903,713	766,184	-	(272,182)	8,397,715
Total	18,020,636	\$ 1,897,012	\$ -	\$ (272,182)	19,645,466
Property and Equipment, Net	<u>\$ 14,153,126</u>				<u>\$ 13,548,810</u>
	Balance June 30, 2018	Additions	Transfers	Retirements	Balance June 30, 2019
PROPERTY AND EQUIPMENT					
Land and Land Improvements	\$ 441,279	\$ 94,512	\$ -	\$ -	\$ 535,791
Building	15,509,468	-	-	-	15,509,468
Fixed Equipment	6,086,700	139,499	-	-	6,226,199
Major Movable Equipment	8,993,601	702,805	111,927	-	9,808,333
Construction in Process	115,322	90,576	(111,927)	-	93,971
Total	31,146,370	1,027,392	-	-	32,173,762
ACCUMULATED DEPRECIATION					
Land Improvements	221,211	19,412	-	-	240,623
Building	5,607,996	821,915	-	-	6,429,911
Fixed Equipment	3,134,393	311,996	-	-	3,446,389
Major Movable Equipment	7,300,962	602,751	-	-	7,903,713
Total	16,264,562	\$ 1,756,074	\$ -	\$ -	18,020,636
Property and Equipment, Net	<u>\$ 14,881,808</u>				<u>\$ 14,153,126</u>

Construction in progress at June 30, 2020 is related to an IT room project and planned clinic expansion. The IT room project was completed in early fiscal year 2021 with minimal additional costs. The clinic expansion project is in early stages and has been delayed, so expected costs are unknown. Anticipated completion of the project will be in fiscal year 2021 or 2022. Currently both projects are being financed internal funds.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 LONG-TERM DEBT

A schedule of changes in long-term debt for 2020 and 2019 is as follows:

	Balance June 30, 2019	Additions	Payments Payments	Balance June 30, 2020	Amounts Due Within One Year
2012 Series Bonds	\$ 9,735,000	\$ -	\$ (9,735,000)	\$ -	\$ -
2013 Series Bonds	1,995,000	-	(1,995,000)	-	-
2019A Bonds	-	8,710,000	-	8,710,000	-
2019B Bonds	-	1,390,000	(330,000)	1,060,000	700,000
PPP Loan	-	2,359,700	-	2,359,700	1,037,661
Capital Leases	105,987	-	(74,556)	31,431	31,431
Total Long-Term Debt	<u>\$ 11,835,987</u>	<u>\$ 12,459,700</u>	<u>\$ (12,134,556)</u>	<u>\$ 12,161,131</u>	<u>\$ 1,769,092</u>

	Balance June 30, 2018	Additions	Payments (Amortization)	Balance June 30, 2019	Amounts Due Within One Year
2012 Series Bonds	\$ 9,735,000	\$ -	\$ -	\$ 9,735,000	\$ -
2013 Series Bonds	2,625,000	-	(630,000)	1,995,000	645,000
Capital Leases	179,315	-	(73,328)	105,987	74,555
Total Long-Term Debt	<u>\$ 12,539,315</u>	<u>\$ -</u>	<u>\$ (703,328)</u>	<u>\$ 11,835,987</u>	<u>\$ 719,555</u>

Future payments of principal and interest on long-term debt obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2021	\$ 1,737,661	\$ 269,445	\$ 31,431	\$ 131
2022	2,066,039	240,482	-	-
2023	780,000	217,634	-	-
2024	798,000	199,787	-	-
2025	820,000	179,070	-	-
2026-2030	4,455,000	547,025	-	-
2031-2034	1,473,000	31,565	-	-
Total	<u>\$ 12,129,700</u>	<u>\$ 1,685,008</u>	<u>\$ 31,431</u>	<u>\$ 131</u>

2012 and 2013 Hospital Revenue Bonds

The 2012 and 2013 Hospital Revenue Bonds were issued on December 28, 2012 and January 15, 2013 in the amounts of \$9,735,000 and \$5,030,000, respectively. Payments of interest at rates from 1.2% to 4.9% were payable semiannually on June 1 and December 1, and principal payments were due annually on December 1 through 2032.

The Hospital was subject to certain financial and nonfinancial covenants under the bond agreement as well as requirements regarding the funding of a sinking fund and a reserve fund.

The bonds were payable solely from revenues and receipts of the Hospital and do not constitute an indebtedness of the County.

These bonds were paid off early with the issuance 2019A and 2019B Hospital Revenue Refunding Bonds in fiscal year 2020.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 LONG-TERM DEBT (CONTINUED)

2019A and 2019B Hospital Revenue Refunding Bonds

The 2019A and 2019B Hospital Revenue Refunding Bonds were issued on November 21, 2020, in the amounts of \$8,710,000 and \$1,390,000, respectively, through UMB Bank. Payments of interest at rates from 2.2% to 3% for the 2019A bonds are payable monthly starting on January 1, 2020, and payments of principal are payable monthly starting on January 1, 2022. For the 2019B bonds, interest payments at a rate of 1.92% are payable monthly starting on January 1, 2020, and principal payments are payable monthly from January 1, 2020, until December 1, 2021.

Paycheck Protection Program (PPP) Loan

On April 22, 2020, the Health Center entered into a loan agreement with the CUSB Bank under the Small Business Administration (SBA) Paycheck Protection Program (PPP) for the amount of \$2,359,700. The loan accrues interest at 1% with principal and interest payments due monthly starting in November 2020. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain criteria like maintaining full-time equivalent employees. The amount of the loan forgiveness has yet to be determined.

Capital Lease Obligation

During the year ended June 30, 2016, the Hospital also entered into a capital lease obligation for a 128-slice CT Scanner. The property and equipment under capital lease obligations is recorded in the amount of \$402,608 with accumulated depreciation of \$376,683 and \$296,161 at June 30, 2020 and 2019, respectively.

NOTE 11 PENSION AND RETIREMENT BENEFITS

Plan Description

IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Pension Benefits (Continued)

These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefits includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.50% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for serviced earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to one percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate to be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability based on a 30-year amortization period. The payment to amortize the unfunded actuarial is determined as a level percentage of your payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of payroll and the Hospital contributed 9.44% of payroll for a total rate of 15.73%. In fiscal years 2020 and 2019, protective occupation members contributed 6.61% and 6.81%, respectively, of covered payroll and the Hospital contributed 9.91% and 10.21%, respectively, of covered payroll for a total rate of 16.52% and 17.02%, respectively.

The Hospital's contributions to IPERS for the years ended June 30, 2020 and 2019 were \$876,678 and \$801,085, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2020 and 2019, the Hospital reported a liability of \$6,153,586 and \$6,178,381, respectively, for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2019 the Hospital's collective proportion was .1059980% which was an increase of .008313% from its proportion measured as of June 30, 2018. At June 30, 2019 the Hospital's proportion for the protection service group was .0841000% which was a .004139% increase from its proportion measured as of June 30, 2018.

For the years ended June 30, 2020 and 2019, the Hospital recognized pension expense of \$1,171,112 and \$794,672, respectively. This is a difference of \$283,077 and (\$11,542) for the years ended June 30, 2020 and 2019, respectively, in (reduced) additional expense due to amortization of deferred outflows and inflows, actuarial assumption changes, and other impacts of the pension calculations summarized in this note. At June 30, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

<u>June 30, 2020</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 19,122	\$ 223,131
Changes of Assumptions	682,841	827
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	726,783
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	576,779	183,453
Hospital Contributions Subsequent to the Measurement Date	876,678	-
Total	<u>\$ 2,155,420</u>	<u>\$ 1,134,194</u>

<u>June 30, 2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 34,544	\$ 141,836
Changes of Assumptions	910,176	1,036
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	178,271
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	256,397	351,960
Hospital Contributions Subsequent to the Measurement Date	801,085	-
Total	<u>\$ 2,002,202</u>	<u>\$ 673,103</u>

\$876,678 and \$801,085 reported as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

<u>Year Ending June 30,</u>	<u>2020 Amount</u>	<u>2019 Amount</u>
2020	\$ -	\$ 337,154
2021	153,579	157,609
2022	(60,905)	(34,144)
2023	32,228	55,182
2024	(10,836)	12,213
2025	30,482	-
Total	<u>\$ 144,548</u>	<u>\$ 528,014</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (Effective June 30, 2017)	2.60% annum
Rates of Salary Increase (Effective June 30, 2017)	3.25 to 16.25% average, including inflation rates vary by membership group
Long-term Investment Rate of Return (Effective June 30, 2017)	7.00%, compound annually, net of investment expense, including inflation
Wage Growth (Effective June 30, 2017)	3.25% per annum based on a 2.60% Inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experiences study dated March 24, 2017 and a demographic assumption dated June 28, 2018.

Mortality rates used in the 2019 valuations were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	22.0 %	5.60 %
International Equity	15.0	6.08
Global Smart Beta Equity	3.0	5.82
Core Plus Fixed Income	27.0	1.71
Public Credit	3.5	3.32
Public Real Assets	7.0	2.81
Cash	1.0	(0.21)
Private Equity	11.0	10.31
Private Real Assets	7.5	4.76
Private Credit	3.0	3.01
Total	<u>100.0 %</u>	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for the years ended June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability as of June 30, 2020 and 2019, calculated using the discount rate of 7.00%, respectively, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

<u>June 30, 2020</u>	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 11,134,941	\$ 6,153,586	\$ 1,975,525
<u>June 30, 2019</u>	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Hospital's Proportionate Share of the Net Pension Liability	\$ 10,657,748	\$ 6,178,381	\$ 2,421,077

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2020 and 2019, the Hospital reported payables to the defined benefit pension plan of \$169,534 and \$140,686, respectively, for legally required employer contributions and employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30 was as follows:

	2020	2019
Medicare	31 %	34 %
Medicaid	12	9
Blue Cross	21	22
Other Third-Party Payors, Patients, and Residents	36	35
Total	<u>100 %</u>	<u>100 %</u>

NOTE 13 RELATED PARTY TRANSACTIONS

Regional Health Services of Howard County Foundation

The Foundation was organized under the provisions of the IRC Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Regional Health Services of Howard County. The Foundation made transfers to the Hospital during the years ended June 30, 2020 and 2019 of \$3,762 and \$-0-, respectively.

Master Affiliation Agreement

On November 1, 2002, the Hospital entered into a Master Affiliation Agreement with Mercy Health Network dba MercyOne (MHN) to provide hospital, physician, and other health care services in Howard County and the North Central Iowa region under the name of Regional Health Services of Howard County. As a part of the Master Affiliation Agreement, the Hospital entered into a professional services agreement with MHN whereby MHN provides physician medical services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to approximately \$2,240,420 and \$2,684,794 for the years ended June 30, 2020 and 2019, respectively.

Management Services Agreement

The Hospital has a contractual arrangement with MHN under which MHN provides administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the board of trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2020 and 2019 were approximately \$676,953 and \$665,753, respectively.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 RELATED PARTY TRANSACTIONS (CONTINUED)

Due to/From Affiliated Organization

As of June 30, 2020 and 2019, the Hospital's records reflect a due to MHN of \$287,545 and \$210,667, respectively, for the various services and distributions related to these agreements.

The Hospital has a contractual arrangement with Mitchell County Regional Health Center to share Chief Financial Officer services. Expenses for the services received for the years ended June 30, 2020 and 2019 were approximately \$121,000 and \$114,000, respectively.

NOTE 14 COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital has an open litigation matter, which would be covered under the malpractice insurance coverage explained above, although subject to the per claim limitation. It is too early in the process for management to estimate the outcome of the case and, therefore, no liability or related insurance recoverable have been recorded in the financial statements. The Hospital continues to vigorously defend the matter.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 15 FUNCTIONAL EXPENSES

Program and general fundraising expenses for the Foundation for the years ended June 30 are as follows:

<u>June 30, 2020</u>	Program Services	Management and General	Fundraising and Development	Total
Endowment	\$ 432	\$ -	\$ -	\$ 432
Events	10,460	-	-	10,460
Fundraising	-	-	1,475	1,475
Contributions to RHSHC	2,287	-	-	2,287
Supplies and Miscellaneous	-	4,836	-	4,836
Total	<u>\$ 13,179</u>	<u>\$ 4,836</u>	<u>\$ 1,475</u>	<u>\$ 19,490</u>

<u>June 30, 2019</u>	Program Services	Management and General	Fundraising and Development	Total
Endowment	\$ 399	\$ -	\$ -	\$ 399
Total	<u>\$ 399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399</u>

The Foundation identifies costs directly to program, support, or fundraising functions as invoices are received or expenses are incurred.

NOTE 16 LIQUIDITY AND AVAILABILITY

As of December 31, 2019 and 2018, the Foundation has working capital of \$703,770 and \$639,157, respectively and average day's cash on hand (based on normal expenditures) of \$13,541 and \$586,309, respectively.

Financial assets available for general expenditures within one year of the balance sheet date consist of the following:

	<u>2020</u>	<u>2019</u>
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 723,074	\$ 640,925
Net Pledges Receivable - Current	15,000	23,955
Total Financial Assets	<u>\$ 738,074</u>	<u>\$ 664,880</u>

As part of the Foundation's liquidity measurement, it has a policy to structure its financial assets to be available as its general expenditures and liabilities come due.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 17 COVID-19 PANDEMIC IMPACTS

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Health Center, COVID-19 may impact various parts of its fiscal year 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Medical Center is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of June 30, 2020.

As part of the Health Center's response to the COVID-19 pandemic, it received payments from the CARES Act Provider Relief Fund (PRF), which is administered by the U.S. Department of Health and Human Services (HHS). The Health Center received Provider Relief Funds in the amount of \$4,410,663, made up of \$563,686 from the General Distribution and \$3,846,977 from Targeted Distributions for Rural Providers, Hot Spots, and Rural Health Clinic (RHC) Testing. The PRF payments are subject to terms and conditions and can generally be used to prevent, prepare for, and respond to coronavirus through reimbursement of health care related expenses or lost revenues attributable to coronavirus. The PRF funds are also subject to certain reporting and audit requirements. Subsequent to year-end, HHS released detailed reporting requirement guidance related to the PRF, which the Hospital has taken into consideration when recognizing revenue related to the PRF. Reporting includes required data elements around eligible expenses, lost revenue, and other data points through calendar year ended December 31, 2020, with a deadline of February 15, 2021. The Hospital has recognized revenue of \$13,320 for eligible expenses for the year ended June 30, 2020. The revenue recognized is included with noncapital grants and contributions in the statement of revenues, expenses, and changes in net position. PRF funds received but not recognized totaling \$4,397,346 as of June 30, 2020 are presented as unearned grant revenue in the statement of net position. Management believes the amounts have been recognized appropriately as of June 30, 2020 based on guidance released to date by HHS, although guidance from HHS continues to evolve subsequent to year-end.

REQUIRED SUPPLEMENTARY INFORMATION

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**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS) (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)**

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 715,690	\$ -	\$ 715,690	\$ 695,819	\$ 19,871
Estimated Other Revenues/Receipts	<u>27,803,842</u> 28,519,532	<u>5,009,412</u> 5,009,412	<u>32,813,254</u> 33,528,944	<u>27,964,709</u> 28,660,528	<u>4,848,545</u> 4,868,416
Expenses/Disbursements Net	<u>27,499,903</u> 1,019,629	<u>(43,101)</u> 5,052,513	<u>27,456,802</u> 6,072,142	<u>29,436,074</u> (775,546)	<u>1,979,272</u> 6,847,688
Balance – Beginning of Year	<u>12,065,689</u>	<u>279,252</u>	<u>12,344,941</u>	<u>14,018,243</u>	<u>(1,673,302)</u>
Balance – End of Year	<u><u>\$ 13,085,318</u></u>	<u><u>\$ 5,331,765</u></u>	<u><u>\$ 18,417,083</u></u>	<u><u>\$ 13,242,697</u></u>	<u><u>\$ 5,174,386</u></u>

NOTE 1 BUDGETARY COMPARISON

This budgetary comparison is presented as required supplementary information in accordance with GASB Statement No. 41 for governments with significant budgetary perspective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The board of trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The board of trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Hospital did amend its original budget during the year ended June 30, 2020 due to increasing drug prices and increased clinic volumes. The Hospital increased their original expenditures from \$26,769,407 to \$28,769,407.

For the year ended June 30, 2020, the Hospital's expenditures did not exceed the amended budgeted amount.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST SIX YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Hospital's Regular Proportion of the Net Pension Liability	0.1059980%	0.0976850%	0.0921900%
Hospital's Protection Proportion of the Net Pension Liability	0.0841000%	0.0799610%	0.0802460%
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,153,586	\$ 6,178,381	\$ 6,100,574
Hospital's Covered Payroll	\$ 8,888,683	\$ 8,088,212	\$ 7,409,425
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	69.23%	76.39%	82.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.45%	83.62%	82.21%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital's Regular Proportion of the Net Pension Liability	0.0939650%	0.1039080%	0.1092420%
Hospital's Protection Proportion of the Net Pension Liability	0.0770920%	0.0864940%	0.0873020%
Hospital's Proportionate Share of the Net Pension Liability	\$ 5,875,612	\$ 5,127,990	\$ 4,352,982
Hospital's Covered Payroll	\$ 7,158,743	\$ 7,425,679	\$ 6,398,957
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	82.08%	69.06%	68.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.82%	85.19%	87.61%

*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF HOSPITAL CONTRIBUTIONS (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE LAST EIGHT YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily Required Contribution	\$ 876,678	\$ 801,085	\$ 684,774	\$ 638,449
Contributions in Relation to the Statutorily Required Contribution	<u>876,678</u>	<u>801,085</u>	<u>684,774</u>	<u>638,449</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered-Employee Payroll	\$ 9,869,454	\$ 8,888,683	\$ 8,088,212	\$ 7,409,425
Contributions as a Percentage of Covered Payroll (Regular)	9.44 %	9.44 %	8.93 %	8.93 %
Contributions as a Percentage of Covered Payroll (Protection)	10.21 %	10.21 %	9.84 %	9.84 %
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 619,730	\$ 651,566	\$ 561,716	\$ 501,453
Contributions in Relation to the Statutorily Required Contribution	<u>619,730</u>	<u>651,566</u>	<u>561,716</u>	<u>501,453</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered-Employee Payroll	\$ 7,158,743	\$ 7,425,679	\$ 6,398,957	\$ 5,950,083
Contributions as a Percentage of Covered Payroll (Regular)	8.93 %	8.93 %	8.93 %	8.67 %
Contributions as a Percentage of Covered Payroll (Protection)	9.84 %	10.14 %	10.14 %	10.27 %

*GASB 68 requires ten years of information to be presented in this table. However, until a full ten years is complied, the Hospital will present information for those years for which information is available.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 PENSION LIABILITY

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of Assumptions

The 2018 valuation implemented the following refinements as a result of demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2016. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

NOTE 1 PENSION LIABILITY (CONTINUED)

Changes of Assumptions (Continued)

The 2010 valuation implemented the following retirements as a result of a quadrennial experience study.

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

OTHER SUPPLEMENTARY INFORMATION

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Total	
	2020	2019
PATIENT CARE SERVICES		
Adults and Pediatrics	\$ 1,766,150	\$ 1,644,561
Nursery	135,957	159,284
Total Patient Care Service Revenue	1,902,107	1,803,845
OTHER PROFESSIONAL SERVICES		
Operating and Recovery Room	3,775,801	3,328,743
Labor and Delivery Room	131,920	99,409
Anesthesiology	936,343	817,185
Radiology	5,924,016	5,337,750
Laboratory	7,160,550	6,918,224
Blood	96,746	59,850
Respiratory Therapy	1,225,718	1,112,890
Cardiac Rehabilitation	230,832	275,428
Physical Therapy	1,271,255	1,429,413
Occupational Therapy	501,822	476,532
Speech Therapy	110,795	146,215
Electrocardiology	783,723	654,917
Medical and Surgical Supplies	177,793	220,142
Pharmacy	3,335,728	4,251,926
Retail Pharmacy	1,388,535	1,118,361
Wound Clinic	549,841	274,505
Emergency Room	3,488,457	3,402,601
Ambulance	1,222,597	845,307
Home Health	1,726,399	1,622,250
Outpatient Clinic	41,208	60,082
Clinical Operations	7,495,988	7,585,309
Sleep Lab	188,457	382,268
Senior Life Solutions	2,265,124	1,987,551
Durable Medical Equipment	457,045	337,746
Total Other Professional Service Revenue	44,486,693	42,744,604
GROSS PATIENT CHARGES	46,388,800	44,548,449
CHARITY CARE	(64,031)	(58,639)
Total Patient Service Revenues	46,324,769	44,489,810
CONTRACTUAL ADJUSTMENTS		
Medicare	(8,959,520)	(8,242,303)
Medicaid	(4,039,960)	(3,583,119)
Commercial and Other	(7,165,410)	(7,713,366)
Total Contractual Adjustments	(20,164,890)	(19,538,788)
Provision for Uncollectible Accounts	(942,042)	(1,254,913)
Net Patient Service Revenues	\$ 25,217,837	\$ 23,696,109

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF PATIENT SERVICE REVENUE (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Inpatient		Outpatient	
2020	2019	2020	2019
\$ 1,272,251	\$ 1,224,505	\$ 493,899	\$ 420,056
135,129	157,755	828	1,529
1,407,380	1,382,260	494,727	421,585
151,598	214,305	3,624,203	3,114,438
128,812	98,967	3,108	442
95,963	125,160	840,380	692,025
259,231	145,497	5,664,785	5,192,253
561,495	482,668	6,599,055	6,435,556
26,256	19,214	70,490	40,636
770,170	769,480	455,548	343,410
-	-	230,832	275,428
290,510	290,274	980,745	1,139,139
202,961	193,642	298,861	282,890
16,850	32,070	93,945	114,145
41,614	27,296	742,109	627,621
47,571	57,744	130,222	162,398
566,668	440,232	2,769,060	3,811,694
-	-	1,388,535	1,118,361
-	-	549,841	274,505
68,942	46,097	3,419,515	3,356,504
28,036	5,892	1,194,561	839,415
-	-	1,726,399	1,622,250
-	-	41,208	60,082
-	-	7,495,988	7,585,309
-	-	188,457	382,268
-	-	2,265,124	1,987,551
-	-	457,045	337,746
3,256,677	2,948,538	41,230,016	39,796,066
\$ 4,664,057	\$ 4,330,798	\$ 41,724,743	\$ 40,217,651

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUE
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments – Medicare	\$ 8,959,520	\$ 8,242,303
Contractual Adjustments – Medicaid	4,039,960	3,583,119
Provision for Uncollectible Accounts	942,042	1,254,913
Other Allowances and Adjustments	7,165,410	7,713,366
Total Adjustments to Patient Service Revenues	<u>\$ 21,106,932</u>	<u>\$ 20,793,701</u>
OTHER REVENUES		
Cafeteria and Meals	\$ 102,561	\$ 106,608
Medical Records Fees	7,394	5,960
Rental Income	34,964	37,589
Public Health Support	144,596	144,596
340B Pharmacy Revenue	1,711,382	1,550,601
Miscellaneous	247,284	178,838
Total Other Revenues	<u>\$ 2,248,181</u>	<u>\$ 2,024,192</u>

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REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Total	
	2020	2019
Employee Benefits	\$ 3,526,949	\$ 3,034,264
Administrative and General	2,903,729	2,572,981
Central Supply	83,617	83,450
Operation of Plant	516,823	498,204
Laundry and Linen	38,530	38,730
Housekeeping	186,510	171,304
Social Services	20,852	25,170
Nursing Administration	173,245	202,719
Dietary	346,641	312,475
Medical Records	309,793	297,062
Adults and Pediatrics	1,435,193	1,277,822
Nursery	4,086	415
Operating and Recovery Room	1,055,730	931,518
Labor and Delivery Room	29,967	30,732
Anesthesiology	23,961	15,638
Nonphysician Anesthetists	232,485	184,866
Radiology	908,447	838,421
Laboratory	723,790	678,881
Blood	30,446	18,578
Respiratory Therapy	317,640	281,285
Physical Therapy	691,099	772,958
Occupational Therapy	232,371	232,491
Speech Pathology	51,428	66,320
Electrocardiology	98,805	107,639
Pharmacy and Intravenous Therapy	1,696,451	1,870,671
Cardiac Rehabilitation	62,796	70,775
Wound Clinic	175,314	99,914
Clinics	4,303,437	4,132,937
Ambulance	572,072	341,544
Outpatient Clinic	7,124	9,575
Durable Medical Equipment	215,609	243,320
Sleep Lab	28,476	61,820
Occupational Health	11,200	11,639
Emergency	1,346,538	1,269,636
Home Health	1,291,547	1,059,982
Retail Pharmacy	938,705	966,035
Senior Life Solutions	625,526	610,233
Depreciation Expense	1,897,012	1,756,074
Amortization Expense	385,959	488,363
	<u>\$ 27,499,903</u>	<u>\$ 25,666,441</u>
Total		

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Salaries		Other	
2020	2019	2020	2019
\$ -	\$ -	\$ 3,526,949	\$ 3,034,264
1,129,371	1,005,128	1,774,358	1,567,853
14,716	11,399	68,901	72,051
152,328	151,923	364,495	346,281
-	-	38,530	38,730
167,994	149,912	18,516	21,392
18,341	25,009	2,511	161
162,867	192,889	10,378	9,830
250,969	213,925	95,672	98,550
265,907	241,828	43,886	55,234
1,328,109	1,147,383	107,084	130,439
1,777	937	2,309	(522)
814,566	763,185	241,164	168,333
27,815	28,916	2,152	1,816
-	-	23,961	15,638
232,485	184,866	-	-
282,904	291,717	625,543	546,704
285,012	298,551	438,778	380,330
4,102	4,514	26,344	14,064
48,985	3,686	268,655	277,599
75,840	69,446	615,259	703,512
591	11,049	231,780	221,442
-	-	51,428	66,320
14,662	13,024	84,143	94,615
114,191	111,657	1,582,260	1,759,014
-	79	62,796	70,696
31,684	23,624	143,630	76,290
2,160,864	1,923,096	2,142,573	2,209,841
425,999	304,546	146,073	36,998
5,014	7,470	2,110	2,105
84,699	108,359	130,910	134,961
-	-	28,476	61,820
3,882	6,445	7,318	5,194
997,962	873,687	348,576	395,949
727,639	675,979	563,908	384,003
-	-	938,705	966,035
38,179	44,454	587,347	565,779
-	-	1,897,012	1,756,074
-	-	385,959	488,363
<u>\$ 9,869,454</u>	<u>\$ 8,888,683</u>	<u>\$ 17,630,449</u>	<u>\$ 16,777,758</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND
ALLOWANCE FOR DOUBTFUL ACCOUNTS (UNAUDITED)
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Analysis of Aging

Age of Accounts (by Date of Discharge)	2020		2019	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 4,195,715	61 %	\$ 3,600,163	52 %
31-60 Days	633,054	9	1,051,111	15
61-90 Days	298,635	4	554,591	8
91 Days and Over	1,737,346	26	1,702,952	25
Total Accounts Receivable	6,864,750	100	6,908,817	100
Allowances:				
Medicare	970,951		915,501	
Medicaid	482,240		352,167	
Other	860,116		1,009,440	
Doubtful Accounts	1,030,851		853,140	
Net Accounts Receivable	<u>\$ 3,520,592</u>		<u>\$ 3,778,569</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 71,671</u>		<u>\$ 68,359</u>	
Days of Net Revenue in Net Accounts Receivable at Year-End	<u>49</u>		<u>55</u>	

Analysis of Allowance for Doubtful Accounts

	2020		2019	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 853,140		\$ 767,989	
Add:				
Provision for Bad Debts	942,042	3.74 %	1,254,913	5.30 %
Recoveries Previously Written Off	259,025	1.03	161,979	0.68
	1,201,067		1,416,892	
Deduct:				
Accounts Written Off	(1,023,356)	(4.06)	(1,331,741)	(5.62)
Ending Balance	<u>\$ 1,030,851</u>		<u>\$ 853,140</u>	

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2020</u>	<u>2019</u>
INVENTORY		
Central Supply	\$ 79,713	\$ 46,692
Pharmacy	182,275	164,045
Other	107,496	63,222
Retail Pharmacy Inventory	200,865	160,332
DME Supplies	287,238	244,913
Total Inventories	<u>\$ 857,587</u>	<u>\$ 679,204</u>
PREPAID EXPENSES		
Insurance	\$ 7,803	\$ 163,867
Maintenance, Dues and Other	126,911	118,042
Total Prepaid Expenses	<u>\$ 134,714</u>	<u>\$ 281,909</u>

REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULES OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

	Balance July 1, 2019	Invested	Redeemed	Balance June 30, 2020
Interest and Bond Sinking Fund	\$ 382,931	\$ 2,362,317	\$ (2,664,087)	\$ 81,161
Debt Service Reserve Fund	1,140,716	9,843	(1,150,559)	-
Total	<u>\$ 1,523,647</u>	<u>\$ 2,372,160</u>	<u>\$ (3,814,646)</u>	<u>\$ 81,161</u>

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Regional Health Services of Howard County
Cresco, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Health Services of Howard County and its discretely presented component unit, Regional Health Services Foundation which comprise the statements of net position and statements of financial positions as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to financial statements, and have issued our report thereon dated November 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2020-001 and 2020-002, which we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
November 9, 2020

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020**

Part I: Findings Related to the Financial Statements:

2020-001 Preparation of Financial Statements

Condition: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Criteria: The Board of Trustees and management share the ultimate responsibility for the Hospital's internal control system. While it is acceptable to outsource various accounting functions the responsibility for internal control cannot be outsourced.

The Hospital engages auditors to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the internal control system. As part of its internal controls over the preparation of financial statements including disclosures, the Health Center has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Hospital's activities and operations.

The Hospital's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Hospital's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Cause: We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of the Hospital's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Part I: Findings Related to the Financial Statements (Continued)

2020-001 Preparation of Financial Statements (Continued)

Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response: This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion: Response accepted

2020-002 Proposed Audit Adjustments

Criteria: The Hospital must be able to prevent or detect a misstatement in the annual financial statements.

Condition: A misstatement of the Hospital financial statements could occur.

Cause: The Hospital relied on the audit firm to propose audit adjustments to reconcile various accounts or revise estimates at year-end. All proposed audit adjustments are approved by management.

Effect: A misstatement of the financial statements could occur.

Recommendation: We recommend that the Hospital accounting personnel review final account balances and consult with auditors throughout the year regarding accounts and adjustments as needed.

Response: Management will consult with the audit firm as needed during the year in order to adjust accounts to appropriately reconcile.

Conclusion: Response accepted.

**REGIONAL HEALTH SERVICES OF HOWARD COUNTY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2020**

Part II: Other Findings Related to Required Statutory Reporting:

- | | |
|---------|--|
| II-A-20 | Certified Budget: Hospital cash basis expenditures during the year ended June 30, 2020 did not exceed budgeted amounts. |
| II-B-20 | Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. |
| II-C-20 | Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. |
| II-D-20 | Business Transactions: We noted no material business transactions between the Hospital and Hospital officials and/or employees. |
| II-E-20 | Board Minutes: No transactions were found that we believe should have been approved in the board minutes but were not. |
| II-F-20 | Deposits and Investments: Noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted. |
| II-G-20 | Publication of Bills Allowed and Salaries: The Hospital is organized under Chapter 347A and is not required to follow this section of the Iowa Code. |